



Director of  
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Cable Editor

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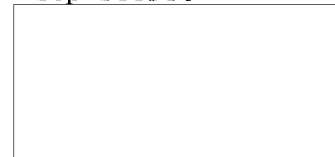
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25X1



Contents

Poland: *Close of Plenum* . . . . . 1

USSR: *Reaction to NATO Naval Exercise* . . . . . 2

China - Southeast Asia: *Diplomatic Activity* . . . . . 3



25X1

Mexico: *Devaluation Undercut*. . . . . 5

Grenada: *Economic Troubles*. . . . . 6

25X1



India-Pakistan: *Talks Postponed* . . . . . 7



25X1

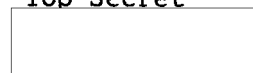
South Africa: *Momentum for Split Builds* . . . . . 8

Special Analysis

Poland: *Economic Strategy* . . . . . 9



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25X1

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25X1

POLAND: Close of Plenum

*Party leader Jaruzelski has emerged from the Central Committee plenum in a strengthened position.* [redacted]

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The Central Committee concluded its plenum yesterday by elevating General Czeslaw Kiszczak--the Minister of Interior and a close associate of party leader Jaruzelski--and party secretary Marian Wozniak--an economic expert--to be candidate members of the Politburo. [redacted]

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Except for Jaruzelski's opening address, the Polish media have released little information on the speeches at the session. [redacted]

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Comment: The additions to the Politburo strengthen Jaruzelski's control over that body and place another senior military person in a top party position. [redacted]

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The sparse reporting of the two-day gathering suggests that the party has abandoned the policy followed before martial law of having the quick and detailed media coverage of its meetings. It also may indicate that there were contentious debates. Most of the top party leadership apparently did not address the plenum but almost certainly were involved in behind-the-scenes discussions and maneuvering. [redacted]

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USSR: Reaction to NATO Naval Exercise

*//The Soviets are portraying the first major NATO naval exercise in the Western Hemisphere--involving the US and five other members of the Alliance--as another indication of US aggressive designs against Cuba and Nicaragua.//*

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//The exercise--which will be held from 8 to 18 March in the Gulf of Mexico, the Straits of Florida, and the western Atlantic--will closely follow another exercise by 13 US and Canadian warships currently in the region. The NATO exercise will involve some 30 ships, 80 aircraft, and 10,000 personnel. Its purpose is to test contingency planning to protect Allied shipping from Cuban or Soviet ships, aircraft, and submarines operating in the Caribbean or Gulf waters during wartime.//

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Comment: //Soviet media have focused on the Allies' participation and are playing upon West European fears of US efforts to drag the Allies into a conflict in the Western Hemisphere. Soviet Defense Minister Ustinov's invitation to the Cuban Deputy Defense Minister, who arrived in Moscow on Wednesday, may in part be designed to accentuate the Soviet commitment to Cuba.//

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//The Soviets are likely to use additional TU-95 reconnaissance flights from Cuba

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to monitor the exercise. They also may consider sending a Soviet naval task force to Cuba later this spring to conduct exercises with the Cuban Navy as they did last April. Cuba, for its part, also will monitor the exercise, and its Navy probably will increase defensive patrol activity.//

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CHINA - SOUTHEAST ASIA: Diplomatic Activity

*China is increasingly seeking to restore momentum to efforts by the Kampuchean resistance to fashion an anti-Vietnamese coalition and attempting to counter any gains by Hanoi through increased economic and political contacts.*

Beijing is hosting what it hopes will be a series of bilateral meetings involving Kampuchean resistance leaders to find a basis for collaboration among the Communist Democratic Kampuchean forces and the non-Communist organizations. Since Democratic Kampuchea rejected Singapore's proposal for a loose coalition earlier this year, the Chinese have become increasingly concerned that ASEAN diplomatic support is at risk. Thailand no longer is facilitating talks among the Kampuchean factions, and Malaysia is threatening to withdraw its support for Democratic Kampuchea at the UN, where the fight over Kampuchea's seat will be renewed later this year.

China also is cautioning the West against following France in reopening economic and political contacts with Hanoi. The Chinese press, for example, recently has emphasized that such moves will neither soften Vietnam's stand on Kampuchea nor wean Hanoi away from its close relationship with Moscow. Beijing also is worried that Hanoi might suggest an interest in alternative proposals on Kampuchea during the visit of French representative Debray in order to seize the diplomatic initiative and lessen its isolation.

Comment: Chinese actions almost certainly are designed to counter the view among many ASEAN members that China is unwilling to exert pressure on Democratic Kampuchea or to compromise on a coalition. In fact, China remains determined to support Democratic Kampuchean primacy in any coalition arrangement. The agreement between Prince Sihanouk and Democratic Kampuchea last week favors Democratic Kampuchea. Despite China's reluctant decision to host the meetings, Beijing still prefers that ASEAN play the central role in arranging a coalition.

China's negative reaction to the recent French offer of economic aid to Hanoi, combined with its criticism in the press in Hong Kong of the current visit by US officials to Vietnam for MIA discussions, underscores its sensitivity to potential cracks in international opposition to the Vietnamese role in Kampuchea.

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MEXICO: Devaluation Undercut

The government is taking new measures that will greatly reduce the effectiveness of the devaluation of the peso in dealing with international bankers. Inflation threatened to spiral out of control following devaluation, and the government feared labor protests would develop before the presidential election in July. Funds are being shifted to increase wages of government workers, and the government also has authorized wage increases in the private sector, eased credit, and placed more consumer items under price controls. [REDACTED]

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Comment: The adjustments probably will provide some political benefit initially for presidential designee de la Madrid. They are likely, however, to drive inflation to between 45 and 60 percent before he takes office in December. The negative reactions from foreign lenders will require more difficult policy decisions. [REDACTED]

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GRENADA: Economic Troubles

//Prime Minister Bishop is planning tax increases and import restrictions to raise revenues and ease balance-of-payments problems. Government spending already has been cut to essentials.//

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Comment: //Increased taxes are unlikely to reduce the budget deficit. Plans to limit imports will add to the alienation of the local business community and will do little immediately to reduce Grenada's rapidly rising foreign debt. The continued investment of scarce resources in the construction of the international airport will further limit foreign exchange available for other programs, making Grenada more dependent than ever on foreign assistance. Already an outpost of Cuban influence in the region, Grenada also has become indebted to radical Arab states for financial aid.//

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INDIA-PAKISTAN: Talks Postponed

India has postponed indefinitely talks with Pakistan on a proposed nonaggression pact because of a recent statement by Pakistan's representative to the Human Rights Commission in Geneva in which he likened the Kashmir issue to the Palestinian question. India has long maintained--and Pakistan denied--that Islamabad's periodic references to the Kashmir question in international organizations violates an understanding of 1972 to confine the issue to bilateral channels. An Indian delegation was scheduled to visit Islamabad on Monday to continue pact negotiations begun earlier this month in New Delhi by the Foreign Ministers of the two countries.

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Comment: Pakistan, which probably did not intend to antagonize India by restating its traditional position on Kashmir, is playing down the incident. Despite public claims to the contrary, the talks may be difficult to revive because the Pakistani action almost certainly has strengthened Prime Minister Gandhi's suspicion that Islamabad's attempt to improve relations was insincere.

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SOUTH AFRICA: Momentum for Split Builds

Prime Minister Botha and Andries Treurnicht, the leader of the National Party's right wing, will maneuver today and tomorrow for control of the party's Transvaal Province wing. Botha's backers are convening a session today of the Transvaal party executive, and they may capitalize on Botha's support in that group to suspend Treurnicht's party membership. Any action taken there, however, will have to be accepted by the 240-member Transvaal Head Committee that meets tomorrow. The committee contains many of Treurnicht's conservative grass-root supporters. [REDACTED]

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Comment: The holding of the two meetings indicates that efforts at reconciliation between Botha and Treurnicht so far have been unsuccessful. The members of the Head Committee probably are evenly divided between Botha and Treurnicht supporters. If Botha wins control of the Transvaal wing, Treurnicht and his followers probably will have no alternative but to leave the National Party. [REDACTED]

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SPECIAL ANALYSIS

POLAND: Economic Strategy

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*Premier Jaruzelski in his speech to the Central Committee plenum on Wednesday again indicated that his economic strategy is to coerce enough output from a crippled economy and a beleaguered population to ease Poland's financial problems with the West and to lay the basis for recovery. To achieve these goals, Warsaw is reducing living standards, considering forced agricultural deliveries, and seeking aid from its allies. Austerity, however, risks intensifying discontent and jeopardizes Jaruzelski's hopes of reaching an accommodation with the people.*

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After earlier periods of unrest, Polish leaders rapidly increased wages and food supplies to reduce political tension. Jaruzelski does not have this option, however, because of Poland's huge hard currency debt and limited access to new credits. He also has to contend with widespread shortages of food and consumer goods, excess money in circulation, and the reluctance of farmers to sell to the state.

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Western sanctions compound these problems by reducing imports and production and by complicating Poland's financial situation. Sanctions prevent Warsaw from importing on credit and using export earnings to pay interest to banks. This reduces the amounts of vital supplies of materials and food that can be purchased from the West.

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Jaruzelski seeks to increase output to a maximum by requiring a six-day week in key industries and by slashing Western imports. The regime plans to run a \$530 million trade surplus with the West in the first half of 1982 in order to pay some debt service and reassure Western creditors.

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### Enforced Austerity

The Premier is relying primarily on massive retail price increases to force down living standards, absorb excess money, and correct market disorder. The price hikes enacted on 1 February on food and utilities raised the overall cost of living by more than 50 percent while wages were increased by only an estimated 20 percent. The regime also has reduced the real value of private savings by adjusting savings accounts upward by only 20 percent and by crediting the adjustment only after February 1985. [REDACTED]

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Almost one-fifth of the population--including private and collective farmers, craftsmen, many service employees, and clergymen--has not received any compensation under these measures. Private farmers, moreover, have to contend with price hikes on equipment, fertilizer, and other supplies that outweigh the increases in prices they receive for their products. [REDACTED]

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Consumers also face more retail price increases on manufactured goods this year, although the government will monitor price changes by enterprises and consider further wage compensation. The impact of the additional burden may be just as severe as the food price increases. [REDACTED]

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Jaruzelski clearly hopes that higher retail prices will reduce hoarding, shorten lines, and leave more goods available for sale. This might help to mollify consumers and give farmers more incentive to sell to the state. The price increases on 1 February apparently have helped keep more goods available, although some of the improvement probably reflects government efforts to put more goods on the market to cushion the blow. [REDACTED]

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### CEMA Assistance

Warsaw is seeking help from its CEMA allies to compensate for reduced supplies of Western materials. The Poles have asked for large trade deficits, a grain "loan," additional raw materials, and accelerated deliveries in order to reduce idle production capacity. In addition, they almost certainly want hard currency assistance. [REDACTED]

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The USSR has been more responsive than East European countries in allowing a 1.2-billion ruble deficit this year. This is less than the deficit of 1.5 billion rubles in 1981, but double what the Poles sought last fall. [REDACTED]

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The Soviets also have agreed to reduce machinery exports in favor of more useful goods and to provide some above-plan shipments. These concessions do not cover Poland's needs, however, and Jaruzelski will keep pushing for more help. [REDACTED]

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One concession by CEMA will help only temporarily. The CEMA countries agreed--apparently to help soften the impact of martial law--to ship a larger share of planned deliveries of a variety of goods for 1982 in the first three months of the year and to let Poland defer temporarily some exports. Warsaw is required, however, to increase exports substantially from April through June and to make do with fewer imports. [REDACTED]

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#### Outlook

Jaruzelski is aware that his economic policy is a gamble, requiring patience by the Polish people and Western creditors, as well as generous aid from other members of CEMA. At best, Poland probably will only be able to pay less than half of the \$2.5 billion interest obligations due this year to private bankers, thereby keeping default an ever-present possibility. [REDACTED]

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Polish consumers may well react to further reductions in their living standards by increasing resistance. The likely failure of Poland's allies to grant enough assistance will generate tensions within the Bloc. It may also undercut the arguments of Polish hardliners that Poland should rely completely on the East and push Warsaw back toward the West. [REDACTED]

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The combination of martial law restrictions under declining living standards reduces the chance that any accommodation with the populace will be reached or significant economic reform be made. Compulsory agricultural deliveries would bring the regime into conflict with private farmers and the Church. Jaruzelski's economic policy, thus, will favor perpetuating a strong martial law apparatus. [REDACTED]

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